Payday Loans

Payday loans (also referred to as "cash advance" or "deferred deposits") are often marketed to servicemembers and their families. In a payday loan, the borrower writes a check to the lender in exchange for a short-term cash loan. For example, a borrower may write a check for $300 to the payday lender. The lender gives the borrower $255 and then does not cash the check until the borrower's next pay day, up to 31 days. The borrower pays a fee of $45 to borrow $255 until payday.

Under California law, a payday loan cannot exceed $300 and the maximum fee a lender can charge is 15% of the face amount of the check. This fee often adds up to an annual percentage rate (APR) that can exceed 400%. APR is the total interest rate that a borrower pays annually on a loan, including all fees and charges. APR is used to calculate the total cost of borrowing money. By comparison, a loan for a new car may have an APR of 7%.

In California, all payday lenders must be licensed by the Department of Corporations. Go to the Department's website or call Toll-Free to verify a license or to file a complaint.

California Payday Lending Laws Protect You:

- A payday lender may only make you **one** loan (which cannot exceed $300), and may only charge a maximum fee of 15% of the total amount of the check (up to $45).
- Your check may only be used for **one** loan transaction at **one** payday loan company.
- If your check bounces, you can only be charged **one** bounced check fee (up to $15) by a payday lender. (Be careful—your bank may charge you additional fees for insufficient funds.)
- A payday lender **cannot** make you a new loan to pay off an existing loan.
- If a payday lender offers you an extension of time or payment plan, additional fees **cannot** be charged.
- A payday lender **cannot** make you a new loan while an existing loan is outstanding, even if the combined balance of the existing loan and the new loan does not exceed $300.
- You may also have other protection under California Law. If you need help, contact the California Department of Corporations.
- File any complaints against a payday lender with the California Department of Corporations.

If You Choose To Take Out A Payday Loan

Borrow only as much as you can afford to pay back in full with your next paycheck. When the loan is due on the next payday, some borrowers find they cannot afford to pay the loan in full. Often, a borrower will take out a second loan from another payday lender in order to pay off the original loan. This can begin a dangerous cycle of debt that may lead to financial disaster.

Consider Your Alternatives

Every service branch has military relief societies (such as the Navy-Marine Relief Society) to provide advice and emergency assistance to servicemembers and families. Go to **www.americasupportsyou.mil/AmericaSupportsYou/military_family.html** for a directory of programs dedicated to helping servicemembers and their families.

Also, contact your creditors before you miss a payment; other payment options are often available. Be sure to ask about costs that are associated with alternative payment plans. Find out if you have (or can set up) overdraft protection on your checking account. Be sure to ask about bank overdraft fees – sometimes these can be very expensive per transaction.

NOTE: **Effective October 1, 2007, federal law (the John Warner National Defense Authorization Act of 2007—Public Law 109-364) provides additional consumer protections to servicemembers and their families. In addition, there may be ongoing changes to California law to better protect servicemembers and their families. Check the Department's website for updated information.**